

Spring 2022
Doctoral Seminar in Accounting

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Course Description: Accounting institutions play a critical role in the functioning of markets and organizations. This course provides an introduction to analytical models useful for studying management accounting, auditing, and financial accounting. Readings will be taken from academic journals and notes provided in class. The general purpose of this class is to expose you to frameworks that will help to energize your research program. Specific class goals include i) developing basic reasoning and modeling skills, ii) introducing you to several simple prototype models which you can solve yourself, and iii) improving your ability to describe the forces operating in a paper's model and how those forces interact to produce the paper's results.

Prerequisites: The approach will be rigorous and analytical. Students are assumed to have a good background in microeconomic theory and to be comfortable with the use of multivariate calculus and mathematical statistics.

While I selectively provide class notes and other review materials for topics which may be a bit more challenging for those with limited analytical backgrounds, I expect a high level of motivation from everyone in the class.

Course Outline

Information in Markets:

1. Elementary Disclosure Models:

The Unraveling Result	Milgrom (1981)
Costly Disclosure	Verrecchia (1983)
Uncertain Information Endowment	Jung and Kwon (1988)
Cheap Talk	Crawford and Sobel (1982)

2. Securities Markets:

Disclosure and risk aversion	Verrecchia (1982)
Rational Expectations Models	Fischer & Verrecchia (2000); Ewert & Wagenhofer (2005)
Optimal Release of Information by Firms	Diamond (1985)
The Kyle Model of Insider Trading	Kyle (1985)
Insider Trading and Bid-Ask Spreads	Glosten and Milgrom (1985)

3. Competition and Disclosure:

Voluntary (Truthful) Disclosure	Darrough and Stoughton (1990)
Untruthful Disclosure	Evans and Sridhar (2001)

4. Various Topics:

Mark-to-market Accounting	Plantin, Sapra, and Shin (2008)
Taxes and Signaling	Williams, Hugher, and Levine (2010)
Real effects of Disclosure	Kanodia and Sapra (2016)
Bayesian Persuasion	Micheali (2017)
Nonfinancial Disclosure	Ozbilgin and Penno (2005)
Auditing Standards	Dye (1993); Ye and Simunic (2011)

Accounting and Organizations:

1. Principal-Agent Theory – Moral Hazard:

The Holmstrom Model	Holmstrom (1979)
Assessing Managerial Ability	Hermalin and Weisbach (2017)

2. Principal-Agent Theory – Adverse Selection:

Board Independence and CEO Turnover	Laux (2008)
Marking to market vs. Taking to Market	Plantin and Tirole (2018)

Potpourri:

Discriminatory Information Disclosure

Li H, Shi X.. AER (2017)

Information Design: A Unified Perspective.

Bergemann D, Morris S. JEL (2019)

Information Spillovers in Asset Markets with Correlated Values.

Asriyan V, Fuchs W, Green B., AER (2017)

Efficient Capital Markets, Inefficient Firms: A Model of Myopic Corporate Behavior

Stein, QJE (1989)

Accounting Information, Disclosure, and the Cost of Capital

Lambert, Leuz, and Verrecchia, JAR (2007)

Uniform Versus Discretionary Regimes in Reporting Information with Unverifiable Precision and a Coordination Role.

Chen, Lewis, Schipper, and Zhang, JAR (2017)

Causal Inference in Accounting Research

Gow, Larcker, and Reiss, JAR (2016)

How Frequent Financial Reporting Can Cause Managerial Short-Termism

Gigler, Kanodia, Sapra, and Venugopalan, JAR (2014)

Voluntary Disclosures, Corporate Control, and Investment.

Kumar, Langberg, and Sivarakrishnan, JAR (2012)

Discretionary Aggregation

Ebert, Simons, and Stecher, TAR (2017)

Independent and Affiliated Analysts: Disciplining and Herding.

Xue, TAR (2017)

Synergy between Accounting Disclosures and Forward-Looking Information in Stock Prices.

Arya, Mittendorf, and Ramanan, TAR (2017)

References

Asriyan V, Fuchs W, Green B.

Information Spillovers in Asset Markets with Correlated Values.

American Economic Review. 2017;107(7):2007-2040.

Bergemann D, Morris S.

Information Design: A Unified Perspective.

Journal of Economic Literature. 2019;57(1):44-95

Crawford, Vincent P. and Joel Sobel

Strategic Information Transmission

Econometrica, Vol. 50, No. 6. (Nov., 1982), pp. 1431-1451

READ: SECTIONS ONE AND TWO

Darrough, M. and N. Stoughton.

Financial Disclosure Policy in an Entry Game

Journal of Accounting and Economics, Vol. 12, 1990, 219-243

Diamond, Douglas W.

Optimal Release of Information By Firms

The Journal of Finance, Vol. 40, 1985, 1071-1094

Dye, R.,

Auditing Standards, Legal Liability, and Auditor Wealth

Journal of Political Economy, 1993, 887-914

Evans, J.H. and S. Sridhar,

Disclosure-Disciplining Mechanisms: Capital Markets, Product Markets, and Shareholder Litigation

The Accounting Review, vol. 77(3), 2002, 595-626

Ewert R. and A. Wagenhofer

Economic Effects of Tightening Accounting Standards to Restrict Earnings Management

The Accounting Review, Vol 80(4), 2005, 1101-1124

Paul E. Fischer and Robert E. Verrecchia

Reporting Bias

The Accounting Review 2000 75:2, 229-245

Glosten L. R. and Milgrom P.

Bid, Ask, and Transaction Prices in a Specialist Market with Heterogenously Informed Traders

Journal of Financial Economics, 1985, 71-100

Hermalin, Benjamin E. and Weisbach, Michael S.,
Assessing Managerial Ability: Implications for Corporate Governance
Forthcoming, *The Handbook of the Economics of Corporate Governance*; Charles A. Dice
Center Working Paper No. 2017-01; Fisher College of Business Working Paper No. 2017-03-
001. Available at SSRN: <https://ssrn.com/abstract=2904346>

Holmstrom, Bengt
Moral Hazard and Observability
The Bell Journal of Economics, Vol. 10, 1979, 74-91

Jung, Woon-Oh and Young K. Kwon
Disclosure When the Market Is Unsure of Information Endowment of Managers
Journal of Accounting Research, Vol. 26, 1988, 146-153

KANODIA, C. and SAPRA
**A Real Effects Perspective to Accounting Measurement and Disclosure: Implications and
Insights for Future Research**
Journal of Accounting Research, 2016, 54: 623–676.

Kyle, Albert S.
Continuous Auctions and Insider Trading
Econometrica, Vol. 53, No. 6. (Nov., 1985), 1315-1336
READ: SECTIONS ONE AND TWO

Laux, Volker
Board Independence and CEO Turnover
Journal of Accounting Research, Vol. 46, 2008, 137-171

Li H, Shi X.
Discriminatory Information Disclosure.
American Economic Review. 2017;107(11):3363-3385.

Magee, Robert P. and Mei-Chiun Tseng
Audit Pricing and Independence
The Accounting Review, Vol. 65, No. 2. (Apr., 1990), 315-336

Michaeli, B.
Divide and inform: Rationing information to facilitate persuasion.
The Accounting Review, 2017, 92(5), 167-199.

Milgrom, P.
Good News and Bad News: Representation Theorems and Applications
Bell Journal of Economics, 1981, 380-391

Mehmet Ozbilgin and Mark Penno
Corporate Disclosure and Operational Strategy: Financial vs. Operational Success

Management Science, 2005, 51(6), pp. 920–931

PLANTIN, G., SAPRA, H. and SHIN, H. S.
Marking-to-Market: Panacea or Pandora's Box?
Journal of Accounting Research, 2008, 46: 435–460.

Guillaume Plantin, and Jean Tirole
Marking to Market versus Taking to Market
American Economic Review, 2018

Verrecchia, R. E.
The Use of Mathematical Models In Financial Accounting
Journal of Accounting Research, 1982, Vol. 20, 43-47

Verrecchia, R.E.
Discretionary Disclosure
Journal of Accounting and Economics, Dec. 1983

Williams M.G., J.S. Hughes, and C.B. Levine
Influence of Capital Gains Tax Policy on Credibility of Unverified Disclosures
The Accounting Review, vol. 85(2), 2010, 719-743